

Sales Taxation

Sales Tax

Sales tax is a state tax and, accordingly, there are different laws for each state. For information related to your state go to www.aicpa.org. Click on research, then external links, then sales tax. Not every state taxes every product or service. In most states a computer will be subject to tax but a doctor visit will not. In some states clothing is subject to tax but in other states it is not. Non-carbonated bottled water may not be subject to tax but carbonated bottled water is subject to tax. Some items may be subject to tax at the wholesale level and some at the retail level. First you need to know what items in your state are subject to tax. Then you apply the appropriate sales tax rate to that item to determine the amount of tax to add to a customer invoice. At the end of each month most states will provide you a transmittal form to send them a check for the sales tax you have charged or have you go online to pay and file. Some states also have a quarterly return which summarizes the activity for the three-month period. Businesses with low levels of sales tax may be able to file and pay annually.

Sales Tax Exemptions

Certain of your customers may not be subject to sales tax. Most states do not require you to charge sales tax to government entities or non-profit organizations. These are exempt organizations and they will normally give you an exemption certificate. Certain of your purchases may not be subject to sales tax. Most states allow you to issue an exempt purpose certificate to suppliers if you are going to resell the product or use it in a manufacturing process.

Use Tax

If you buy a computer in state, you will most likely pay sales tax on that item. However, if you bought the computer from out of state, you most likely will not be charged any sales tax. Your state would lose the sales tax revenue. Since they do not want to lose this sales tax, the state laws say that if you buy something out of state, which, if bought in state would have been subject to sales tax, and you paid no sales tax, then, you are using it in our state and you need to pay use tax equal to the sales tax. On the other side of the equation, if you sell product to customers out of state, you do not have to charge those customers your state's sales tax. The use tax is usually integrated into the sales tax returns.

Sales and use tax is the most confusing tax and can lead to tax delinquencies in state tax audits. Have a clear understanding of your state sales tax laws.

For more resources visit www.rjclark.com.